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SUBJECT: Argentina Economic and Financial Review, February  
12-February 19, 2010

¶1. (U) Provided below is Embassy Buenos Aires' Economic and Financial Review covering the period February 12-February 19, 2010. The unclassified email version of this report includes tables and charts tracking Argentine economic developments. Contact Econ Deputy Jason Witow at WitowJN@state.gov to be included on the email distribution list. This document is sensitive but unclassified. It should not be disseminated outside of USG channels or in any public forum without the written concurrence of the originator. It should not be posted on the internet.

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2010 inflation forecasts run between 20-33%  
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¶2. (SBU) According to an article in La Nacion, Banco Ciudad analyst Luciano Laspina estimated that inflation will increase by at least 20% during 2010. He explained that the actual numbers will depend on government monetary and fiscal policies and potential price controls. According to Laspina, the rise in prices -- which began to accelerate during the last quarter -- is due to the proposed creation of the Bicentennial Fund. There is general uncertainty regarding the transfer of Central Bank reserves to the Treasury and the suspicion that reserves will be used to pay current expenditures. In contrast, a study by Universidad Torcuato Di Tella (UTDT) indicated that inflation might rise to almost 33% in Buenos Aires province and about 30% in the country as a whole. The study explained that these figures are a result of steep price increases for meat and dairy products.

¶3. (SBU) The GoA is operating on two tracks in its attempt to control inflation. The first, led by Secretary of Internal Commerce Guillermo Moreno, is working with producers to agree on price limits. According to the press, Moreno spoke with healthcare firms and producers of school supplies, cleaning equipment, cosmetics, and food. He also visited supermarkets and met with fruit and vegetable vendors at the Central Market, in addition to talking to meat suppliers about the big increase in meat prices. According to press reports, Moreno forced Buenos Aires Central Market vendors to lower prices by threatening to fine them for regulatory infractions. When he and his entourage left the market, the vendors apparently restored the prices to their earlier levels. There are also reports that Moreno succeeded in convincing some supermarkets to agree on maximum prices for about 20-30 basic products. Regarding the meat market, the high prices are benefiting exporters, who sell high-end meat cuts internationally, and supply the local market with inferior cuts. The National

Office of Commercial Farming Control (ONCCA) has suggested that more export permits will be issued if needed.

14. (SBU) The second track in the fight against inflation is being led by Minister of Economy, Amado Boudou, who is working to develop policies that will result in increased investment and the accelerated production of goods in order to supply the growing demand, which the GoA says is the real cause of inflation.

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Central Bank President discusses financing options with industry  
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15. (SBU) New President of the Central Bank (BCRA) Mercedes Marc??? del Pont is beginning a series of meetings with various industry groups. The idea behind these meetings is to set up a direct link between producers and the financial sector to explore new long-term financing options. This will, in turn, help increase production

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and supply, which will help solve Argentina's inflation problem. The first meeting with the Food Products Industry Coordinator (COPAL) is expected to be important since the food sector has had the greatest price increases.

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Farmers demonstrate against agriculture policies  
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16. (SBU) There was a demonstration by farmers in Chab????s, Santa Fe on February 17 against the government's agriculture policies. The demonstration was led by the Argentine Agrarian Federation (FAA) with the participation of more than 600 producers, truck drivers and other locals. Farm sector producers from other parts of the country participated as well. Eduardo Buzzi, head of the FAA, said that he wants to continue to negotiate with the GoA, but threatened strikes if no positive results are achieved. The demonstrators were protesting against the possibility that the government would cut exports to encourage lower domestic prices. Buzzi said that if the GoA pursued such a policy, there could be dire consequences, such as a food sales boycott. He highlighted the need to increase the number of corn export permits, to improve wheat prices for producers, and to establish lines of communication to discuss livestock policies.

17. (SBU) Minister of Agriculture Juli????n Dom????nguez criticized the demonstration, declaring that negotiations are being conducted to solve the current crisis. On February 18, he invited Buzzi and other leaders to a meeting during which the government plans to announce new subsidies for the cattle and meat sectors. According to livestock experts, stockbreeding has been severely impaired by the worst drought in 70 years and counterproductive government policies, leading to uncertainty among producers about the sustainability of export profits. The wheat market faces similar uncertainty, as supply vastly exceeds demand, and according to

producers, the GoA has not fulfilled its promise to buy wheat to support prices. Further demonstrations and possible strikes are scheduled for February and March.

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Steel production increased in January  
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18. (SBU) According to the Center for the Iron and Steel Industries (CIS), steel production increased 18.6% (336,900 tons) in January 2010 compared to January 2009, when production was very low due to the international financial crisis. However, compared to December 2009, production was down 14%, largely due to annual summer factory closures for maintenance. According to the CIS, iron production increased 8.2% in January 2010 (363,200 tons) compared to December 2009, and 69.8% compared to January 2009. The production of hot laminates decreased 2.9% in January 2010 (354,200 tons) compared to December 2009, but increased 45.5% compared to a year ago. The production of cold laminates was up 8.7% in January 2010 (132,900 tons) compared to December 2009 and up 96.9% compared to January 2009. The CIS claims that the cost of iron and coal and other raw materials has increased significantly "due to an increase in global demand and the prices that the Chinese iron and steel industries are willing to pay."

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Oil company to invest USD 1.1 billion in Chubut oilfield  
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19. (SBU) Pan American Energy (PAE), a 60/40 joint venture of British Petroleum and the Bulgheroni family's Bidas Corporation, announced on February 18 that it is planning to invest USD 1.1 billion in the Cerro Dragon oilfield in the Gulf of San Jorge in Chubut. PAE's partial local ownership by Argentine nationals and more importantly, its expanding domestic oil and gas exploration and production in an era where overall Argentine hydrocarbon production has trended steadily downward, has made this company a favorite of the Kirchner administration. PAE is second only to Spanish-owned Repsol YPF as Argentina's largest hydrocarbon producer. In January 2010, the Ministry of Economy and Public Finance announced that tax collection reached \$29 billion (Argentine pesos), 20.4% above January 2009 collection. The major drivers of the overall tax collection were: social security contributions, up 26.5% to \$9.3 billion; value-added tax (IVA) receipts, up 23.1% to \$8.3 billion; and taxes on profits, which rose 25.8% to \$5.0 billion. The Ministry, in a press release, attributed this record tax collection to an increase in consumption, an overall increase in salaries during the year 2009, and to the various government measures undertaken to minimize the effects of the international financial crisis.

110. (SBU) In a presentation to the governor of Chubut, Mario Das Neves, PAE claimed that reserves could reach 1.6 billion barrels. USD 700 million will be invested for production and exploration and USD 400 million for operating costs. Cerro Dragon is situated in one of the best sites for oil production in the country. Overall energy investment in the region was USD 456 million in 2006, USD 559 million in 2007, USD 826 million in 2008, and 686 million in 2009. Investment for 2010 is projected at USD 826 million.

Calafell Losa, PAE Vice President for Public Affairs, said that these investments have brought about a substantial increase in economic activity in the region and the development of new offshore exploration projects as well. Governor Das Neves emphasized the importance of investment as an engine of job growth, saying that up to 1,000 new jobs will be created in 2010.

MARTINEZ